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FISCAL IMPACT STATEMENT

LS 6615
BILL NUMBER: SB 534

NOTE PREPARED: Jan 15, 2013
BILL AMENDED:

SUBJECT: Prescription Drug Costs.

FIRST AUTHOR: Sen. Grooms
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill specifies limitations on certain out-of-pocket costs for prescription drugs under coverage provided by a state employee health plan, a policy of accident and sickness insurance, and a health maintenance organization contract.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Summary*: If the state elects to provide prescription drug benefits in the state employee health plan after this bill is enacted, this bill could increase the costs of the state employee health plan between $1.1 M and $1.4 M per year. However, the extent to which the increased costs would be passed on to health plan participants through higher employee-paid premiums, lower wage increases, or a reduction or elimination of health benefits is unknown.

Further, the State Personnel Department (SPD) reports that if the prescription benefits under the state employee health plan were subject to maximum out-of-pocket costs specified in the bill, the state's current high-deductible, consumer-driven health plans (CDHP) could be disqualified for the tax benefits of a health savings account (HSA).

Additional Information:

Impact on Health Plan Costs: To the extent the state employee health plan offers coverage for prescription drug costs after the effective date of the bill, this bill will require the cost-sharing amount (including copayments, coinsurance, or other out-of-pocket costs) for prescription drug costs to not exceed 1/12 of the maximum out-of-pocket costs for qualified health plans offered through the health insurance exchange (HIX) under the federal Patient Protection and Affordable Care Act (PPACA). Additionally, any out-of-pocket costs paid by a covered individual in the state employee health plan for prescription drugs must be included in any out-of-pocket annual limitation.

The bill does not require the state employee health plan to provide coverage for prescription drugs, and provisions of the bill will apply to any state employee health plan that is established, entered into, amended, or renewed after June 30, 2013, and the provisions will expire July 1, 2015.

The State Personnel Department reports that including the maximum out-of-pocket costs specified in the bill in the state employee health plan could increase health plan costs between approximately $1.1 M and $1.4 M annually. This increase may not necessarily imply additional budgetary outlays since the state's response to increased health benefit costs may include (1) greater employee cost-sharing in health benefits; (2) reduction or elimination of other health benefits; and (3) passing costs onto workers in the form of lower wage increases than would otherwise occur. It is unknown at this time if the state would cover the added costs or pass the costs on to employees.

Impact on HSA Allocations: As reported by the SPD, the state would still be allowed to offer CDHPs; however, health plan participants would no longer have the tax benefit of HSAs. State CDHP participants would instead be able to utilize flexible spending accounts (FSAs).

HSAs currently allow health plan participants to allocate pre-tax dollars to an account to finance qualified medical purchases, such as medical procedures and prescription drugs. Money allocated to an HSA does not expire at the end of the allocation year. According to federal tax regulations, for CY 2013 there is currently a maximum annual contribution cap of $3,250 for single coverage and $6,450 for family coverage for HSA contributions. These maximum contribution amounts would also include any contribution the state makes to a state employee's HSA.

FSAs, by contrast, allow health plan participants to allocate pre-tax dollars to finance similar medical purchases. However, there are caps on annual contributions, and money allocated to FSAs expires at the end of the allocation year (i.e., use it or lose it). For CY 2013, federal guidelines stipulate that maximum annual contributions to FSAs are $2,500 per year.

Currently, the state contributes between $675 and $1,125 for single policy holders and between $1,350 and $2,250 for family policies toward state employee HSAs annually (depending on the specific health plan the employee has selected). The SPD reports the total state HSA contribution for CY 2013 is $48.9 M.

Explanation of State Revenues: The bill's requirements will also apply to policies of accident and sickness insurance offered in the state. As a result, insurance companies that offer policies of accident and sickness insurance will be required to provide prescription drug benefits within the cost structures specified in the bill. The inclusion of this benefit may increase insurance premiums in the state. To the extent this occurs, the state could receive additional revenue from taxes paid on insurance premiums. Revenue received from the Insurance Premium Tax is distributed to the General Fund. Actual increases in state revenue from insurance premiums are indeterminable.

For FY 2012, the insurance premium tax collected approximately $203 M in revenue.

<u>Explanation of Local Expenditures:</u> Local government units and local school corporations that are enrolled in the Local Unit Government Employees (LUG) health plan or that purchase private group insurance could also be affected by the provisions of this bill.

If this bill increases local costs to participate in the LUG health plan or to purchase private group insurance plans, it is not known how much of the increased costs will be borne by the local unit and by the participating individuals.

<u>Explanation of Local Revenues:</u>

<u>State Agencies Affected:</u> All.

<u>Local Agencies Affected:</u> School corporations; Local units of government.

<u>Information Sources:</u> Christy Tittle, State Personnel Department; Keith Beesley, State Personnel Department.

<u>Fiscal Analyst:</u> Bill Brumbach, 232-9559.